



County of Los Angeles

CHIEF ADMINISTRATIVE OFFICE

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DAVID E. JANSSEN
Chief Administrative Officer

September 22, 2003

To: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE BRATHWAITE BURKE
Second District

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Third District

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Fourth District

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Fifth District

STATE LEGISLATIVE UPDATE

Impact of Workers' Compensation Reform on the County

As previously reported, my office has been working to develop an estimated value to the County of the workers' compensation reform package sent to the Governor. CAO Risk Management staff estimates that overall the reform package, when fully implemented, will provide the County with about \$20 million in annual savings. This represents a portion of the \$60 million in reform priorities outlined in the Board's June letter to the Legislature, and while these reforms are meaningful, they are only a beginning. Moreover, these new savings are independent of the effects of AB 749, enacted last year, which increases benefits and is estimated to result in a \$50 million annual increase in the County's workers' compensation costs.

The following outlines the impact on the County of the workers' compensation bills before the Governor.

Major Bills

AB 227 (Vargas) reforms many of the administrative aspects of the workers' compensation system including 1) a requirement for employers to pay 100 percent funding for the State Division of Workers' Compensation, 2) repeal of the vocational rehabilitation program and creation of an alternative new supplemental job displacement benefit for injuries occurring on or after January 1, 2004, 3) authorization for the California Infrastructure and Economic Development Bank to issue up to \$1.5 billion worth of bonds at any one time to assist in the solvency of the California Insurance Guarantee Association, 4) an increase in the maximum fine for workers' compensation

fraud from \$50,000 to \$150,000, and 5) a requirement for the Insurance Commissioner to develop an online rate comparison guide showing workers' compensation insurance rates.

The 100 percent employer funding requirement in AB 227 will increase County costs by an estimated \$1.5 million annually. The vocational rehabilitation changes will have no effect on the County until after January 1, 2005, when savings will likely occur up to an estimated \$6 million annually resulting in an estimated overall savings generated by AB 227 of \$4.5 million.

SB 228 (Alarcon), which has the most direct impact on the County, includes the following provisions: 1) adoption of medical treatment utilization standards for injuries effective on January 1, 2004, 2) creation of a medical treatment utilization schedule that includes limiting chiropractic and physical therapy visits to 24 per injury, 3) a requirement that employers assume 100% responsibility of the costs for the administration of the State workers' compensation program, 4) prohibition of physician referrals to outpatient surgery centers where they have a financial interest, 5) required use of generic drugs and medical supplies in all situations, except under certain controlled conditions, 6) payment of medical bills within 45 days, except for government employers who have 60 days, 7) increased penalties for late payment of a bill, and designation of false or fraudulent statements or certain actions with respect to workers' compensation claims as a crime, 8) authorizes the treating physician's presumption of correctness to be rebutted, 9) freezes workers' compensation insurance rates from January 1 through December 31, 2004 at the levels in effect on July 1, 2003, 10) requires the adoption of an electronic bill-paying procedure for medical services on or before January 1, 2005 and all employers to accept claims and pay claims within 15 working days commencing on July 1, 2005, and 11) allows an employer and union to negotiate alternative dispute resolution programs.

The provisions of SB 228 relating to fee schedule changes, utilization controls, and repeal of the treating physician's presumption of correctness will save the County \$22 million annually. The electronic bill paying procedures and the potential to develop alternative dispute resolutions will likely provide the County with some additional savings in the long term.

Minor Bills

AB 149 (Cohn) extends the statute of limitations for claims for workers' compensation death benefits in the case of firefighters whose death results from asbestosis. **This bill may cause a minor cost increase.**

AB 1099 (Negrete-McLeod) increases the role of the State Employment Development Department (EDD) in combating fraud by including it among the agencies authorized to request and receive information regarding workers' compensation fraud investigations,

and permits insurers to notify EDD when they know, or reasonably believe they know, the identity of a person or entity that has committed workers' compensation fraud. **This bill has no measurable impact.**

AB 1262 (Matthews) requires insurance firms to ensure that claims adjusters handling workers' compensation claims meet minimum standards of training, experience, and skills, and requires the Department of Insurance to adopt regulations setting forth standards regarding minimum qualifications and competencies. **This bill will likely cause a slight short-term increase in County claims administration costs that should be offset by higher quality work.**

SB 1007 (Speier) expands the definition of "common trade or business" to certain manufacturing and agricultural sectors for the purposes of group workers' compensation insurance policies. This will also allow certain employers to form associations so that they may provide group workers' compensation policies to similarly situated employees. **This bill has no impact on the County.**

Status of County-Interest Legislation

County-supported SJR 6 (Soto), which would call upon the Congress to provide additional funding to the states for first-responder training as part of homeland security funding, was chaptered (Resolution Chapter 137) on September 18, 2003.

We will continue to keep you advised.

DEJ:GK
MAL:JF:DdN:JL:ib

c: Executive Officer, Board of Supervisors
 County Counsel
 Local 660
 All Department Heads
 Legislative Strategist
 Coalition of County Unions
 California Contract Cities Association
 Independent Cities Association
 League of California Cities